

TITLE OF REPORT: **Medium Term Financial Strategy 2018/19 – 2022/23**

REPORT OF: **Darren Collins, Strategic Director, Corporate Resources**

Purpose of the Report

1. To request Cabinet to recommend to Council the approval of the Medium Term Financial Strategy (MTFS) 2018/19 to 2022/23 and the outcome of a review of Council Reserves as set out in this report and appendix.

Background

2. The MTFS is fundamental to effective financial planning within the Council as it sets the financial context for the Council's resource allocation and budget setting ensuring that resources are assigned to priority outcomes within the Council Plan.
3. The current MTFS was agreed by Council on 14 July 2016.
4. A refresh of the funding gap, following the Local Government Finance Settlement 2017/18, was reported to Cabinet on 24 January 2017. Within the 2017/18 settlement the Government provided some details of indicative funding up to 2019/20 which gave a high level indication of revenue support grant funding. However uncertainty still exists in respect of likely Government funding levels in relation to other grants over that period as well as the instability arising from unknown future funding levels from 2020/21 and the outcome of any future finance reforms.
5. The Queens speech on 21 June 2017 did not re-introduce the Local Government Finance Bill which would allow progression towards a new Local Government Finance System and 100% rates retention. Ministers have said they remain committed to local government taking greater control of their income and that they will consider options for future finance reforms without an immediate Bill. Given this announcement the timing and outcome any future reforms is highly uncertain. The refreshed MTFS is based on assumptions around 100% rates retention in 2020/21. In the absence of any clarification around any other funding system being available the assumptions, based on Government intent will remain until such time as these can be superseded.
6. The prospect of continuing reductions in Government funding, remains an increasing challenge to the Council's medium to long term financial sustainability. The current context is that over £143 million of budget savings have been identified and taken from Council budgets since 2010 whilst demand pressures in key services have continued to grow.
7. This report reviews the principles of the MTFS for Cabinet to consider and make a recommendation to Council. It also updates budget forecast models taking into consideration Government funding for 2017/18, assumptions on funding for 2018/19 to 2022/23 based on estimates and assumptions around service and corporate pressures. The MTFS also includes a review of the reserves policy of the Council, the outcome of which is set out in the following sections of this report.

8. The Council will continue to keep the MTFS under review as a consequence of the high degree of uncertainty surrounding the potential impact of Government policies and funding decisions.

Proposal

9. The proposed MTFS for 2018/19 to 2022/23 is attached at Appendix 2. This presents a very challenging financial position over the medium term as a result of assumptions concerning future Government and other funding. The indicative budget forecasts within the MTFS show an estimated funding gap of around £88.044m for the next five years to 2022/23 with an estimated gap of £41.876m for the first two years. This position assumes that all previous year savings are fully achieved within the financial year.
10. To satisfy its legal requirement to balance the budget the Council must make spending plans affordable by matching them to the estimated funding available over that time. The gap between the two amounts is referred to as the “financial gap”. Thus the financial gap is a combination of the Council’s best estimate of the future budget needed to cover rising cost pressures and demands for services alongside a reduced amount of income. Action is required now to enable the council to legally balance the budget for both next year and in future years.
11. To assist in meeting the challenges ahead the principles which underpin the MTFS have been reviewed and these are proposed as follows:
 1. The overall financial strategy will be to ensure that the Council’s resources are directed to achieving Vision 2030 and the outcomes set out in the Council Plan. The Council’s MTFS will be reviewed on at least an annual basis.
 2. Overall Council spending should be contained within original estimates. If, following monthly revenue monitoring, service budgets are projected to exceed original estimates, plans should be prepared setting out the actions required to ensure spending at the end of the year does not exceed original estimates.
 3. The Council will maintain its general reserve at a minimum of 3% of the net revenue budget to cover any major unforeseen expenditure. The Council will aim to balance its revenue budget over the period of the MTFS without reliance on the use of the general reserve.
 4. The Council will maintain earmarked reserves for specific purposes which are consistent with achieving its key priorities. The use and level of earmarked reserves will be reviewed at least annually.
 5. The Council will continue to improve its approach to efficiency, commissioning and procurement to ensure value for money and minimise the impact of budget savings on priority services as well as effectively managing change.
 6. Opportunities for working in collaboration and partnership and different ways of working will be identified and developed where this will support the delivery of the Council’s outcomes and improve service efficiency and delivery. This will include the use of well-being powers, development of trading opportunities and different business models and the sourcing and securing of external funding.

7. The Council will consider a range of delivery mechanisms and funding sources to support capital investment to deliver Vision 2030, including the use of prudential borrowing, and will ensure that the full costs associated with financing the investment are taken into account when investment decisions are taken.
8. The Council will aim to promote and stimulate strong and sustainable economic growth leading to wellbeing and prosperity for residents and communities and this will be supported by a planned approach to strategic investment managed through the Council's capital programme.
9. The Council recognises the impact of increases in Council tax levels and fees and charges in an area of relatively low income and low wealth and will therefore balance the need for increases against the delivery of Vision 2030 and demand for services.

Reserves Review

12. Following the 2016/17 Revenue Outturn, at 31 March 2017, the Council's usable revenue reserves are £56.044m, £16.650m of which are ring-fenced for a specific purpose and cannot be used to support the revenue budget and Council Tax requirement. In line with the Council's policy on reserves a full review of reserves has been carried out as part of the refresh preparation of the MTFS. As a consequence of the review the Councils total general fund reserve will become £17.873m (from £22.270m) and the amount held in strategic earmarked reserves will become £38.171m (from £33.774m) with the remaining balance of £16.650m remaining as ring-fenced. Further information including tables showing the movement, is provided in section 12 of the MTFS document at appendix 2.
13. The following changes to the Council's reserves are proposed for approval;
 - a. The **Development Pool Reserve** (£6.009m) is renamed to Workforce Development Reserve and the scope of the reserve is increased to include training and development to support activity within the workforce plan. The focus on training and development will incorporate activity to reskill the Council workforce where appropriate to improve employability both within the Council and across the wider borough.
 - b. **Economic Growth, Culture and Place Shaping Reserve** (£3.390m) - The Economic Growth Reserve is retained at its current level but the scope of the reserve be increased to include culture and place shaping and the facilitation of housing growth initiated within the Borough. This reserve will be used to stimulate economic growth and to lever investment into the area to support Culture 2030. All investment will need to be clearly linked to outcomes in respect of increased business rates income to the Council or economic growth in the wider Gateshead economy.
 - c. It is recommended that a new **Strategic Revenue Investment Reserve** (£4.206m) is created from the £2.897m Airport Dividend and the £1.309m Strategic Change Reserve. This reserve would be used to support the financial strategy contained within the Council MTFS by allocating investment on a time limited short term basis in order to generate future savings, manage demand through investment in prevention strategies and to generate and maximise income. The intention will be to assist in the delivery of the financial sustainability of the Council in the medium and long term.

- d. It is recommended that a new **Voluntary Sector Reserve** (£0.500m) be created using £0.500m earmarked from the general reserve to support development and activity in this sector. This reserve would be used to mitigate savings in the voluntary sector where appropriate, prepare the sector for increasing demand by increasing capacity and skills, and preparing the sector for the transition to any new operating arrangements. It is recommended that this reserve is administered alongside the existing Gateshead Fund to enable a coordinated approach to be adopted to Council support in this area.
- e. It is recommended that a new **Anti-Poverty Reserve** (£1.000m) is created using £1.000m earmarked from the general reserve to mitigate the impact of poverty and social exclusion within the Borough. The reserve would support a Council Anti-Poverty Strategy and also assist in alleviating the impact of welfare reform and austerity on the residents of Gateshead, consistent with Council priorities

Recommendations

14. Cabinet is requested to recommend to Council:

- (i) the approval of the Medium Term Financial Strategy for 2018/19 to 2022/23 including the proposed MTFS principles;
- (ii) to note the outcome of the review to both general fund and strategic earmarked Council reserves and approve;
 - a. the renaming of the Development Pool Reserve to Workforce Development Reserve and the increased scope of the reserve to include training and development to support activity within the workforce plan;
 - b. to increase the scope of the deployment of the Economic Growth Reserve to include culture, place shaping and the facilitation of housing growth within the Borough;
 - c. to create a new Strategic Revenue Investment Reserve of £4.206m from the £2.897m Airport Dividend and the £1.309m former Strategic Change Reserve;
 - d. to create a new Voluntary Sector Reserve using £0.500m earmarked from the general reserve to support development and activity in this sector;
 - e. to create a new Anti-Poverty Reserve using £1.000m earmarked from the general reserve to mitigate the impact of poverty and social exclusion;
- (iii) to note that the Strategic Director, Corporate Resources, following consultation with the Chief Executive, will continue to produce and monitor on an annual basis, a rolling programme of five-year budget forecasts taking account of the key issues facing the Council
- (iv) to note that the Strategic Director, Corporate Resources, following consultation with the Chief Executive will continue to keep under review and update the MTFS as appropriate to respond to Government policy and funding announcements.

For the following reasons:-

- i) to contribute to the good financial management practice of the Council;
- ii) to assist the financial sustainability of the Council over the medium to long term.

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Policy Context

1. The MTFS is the mechanism for supporting the redirection of resources to deliver Vision 2030 and the Council Plan. It also ensures a sustainable Gateshead through best use of resources to deliver value for money services and long term financial stability in a very challenging financial environment.

Background

2. The Council's current MTFS for the period 2017/18 to 2021/22 was approved by Council in July 2016 and was refreshed in January 2017 following the Local Government Finance settlement.
3. The MTFS is a key part of the Council's Policy, Service Planning and Performance Management framework, which aims to ensure that all revenue resources are directed towards corporate priorities and the delivery of Vision 2030 and the Council Plan. It is based on a financial forecast over a rolling five-year timeframe which will help ensure resources are aligned to priorities in the refreshed Council Plan. The Strategy describes the financial direction of the Council and outlines the estimated financial pressures over this five year period.
4. Medium term financial planning is taking place against the background of significant funding cuts for local government. The likely continuing requirement and scale of budget savings, over and above the £143m already taken from budgets since 2010, represents an increasing challenge for the Council. The Council, in common with most local authorities, continues to be at risk from financial cost pressures, including workforce management, waste management and increasing demands for services such as social care and welfare reform. This environment will challenge the ability of the Council to respond to the many needs of Gateshead residents and the wider community.
5. Central Government have stated their commitment to long term reforms in the way that Councils are financed. Their stated aim is to significantly reduce reliance on central grants and move local authorities to be self-financing. This has resulted in an expectation that Councils will rely more on locally raised income from council tax, local business rates, fees and charges, trading income as well as contributions towards service costs from third parties.
6. The current MTFS has been reviewed and updated. The MTFS 2018/19 to 2022/23 is attached at Appendix 2 and outlines a strategy to deal with a funding gap of £41.9m for the two year period. The overall five-year funding gap over the life of the MTFS is estimated at around £88.0m. In order to set a balanced budget each year all funding options will need to be considered, including:
 - Budget savings
 - Retained business rates from economic growth
 - Realignment of spending priorities with the Council Plan 2015-20
 - Capacity building within communities
 - Additional external funding
 - Additional income including a review of current and potential areas of trading
 - Council tax increases
 - Use of reserves

7. The Council response to the challenging financial context is aligned to delivery of the Council Plan with a focus on four inter-related areas: economic growth, managing demand, collective responsibility and efficiency by:
- Doing all we can to support economic growth and revenue generation – given reductions in central government funding, success in this area will enable the Council to redirect resource to activities which protect the most vulnerable.
 - Focusing on managing demand (particularly in social care) with a targeted approach, emphasising early intervention and prevention.
 - Increasing collective responsibility – encouraging and supporting local people, partner organisations, businesses and local communities to play a more active role in achieving the outcomes for Gateshead.
 - Continuing to drive efficiencies through changes to the way the Council works, for example, through exploiting new technology, consolidation of buildings and services, reducing complex processes and increased trading.

Consultation and Equalities Impact

8. The MTFS sets a financial context for budget consultation. The Council's budget planning framework is supported by the development of Equality Impact Assessments (EIAs) for any budget proposals, identifying possible disproportionate impact in relation to the protected characteristics as described within the Equality Act 2010. The EIAs will also identify potential mitigation where applicable.
9. The Council maintains its strong commitment to equality, believing that all groups and individuals within the community and its workforce have equal opportunity to benefit from the services and employment it provides. EIAs help the Council to arrive at informed decisions and to make the best judgements about how to target resources.
10. The Leader of the Council has been consulted on this report.

Alternative Options

11. There are no alternative options.

Implications of Recommended Option

12. Resources

- a. **Financial Implications** - the Strategic Director, Corporate Resources confirms that financial implications are as contained within the MTFS document.
 - b. **Human Resource Implications** – The need to support Council employees as much as possible through changes arising from the MTFS principles set out in this report is recognised. Any direct implications will form part of the budget planning framework and identification of budget proposals.
 - c. **Property Implications** – No direct property implications. Any direct implications will form part of the budget planning framework and identification of budget proposals.
13. **Risk Management Implication** – The MTFS risk implications are contained within Section 16 of the MTFS document. Risks arising from the direct impacts of this strategy will form part of the Council's approach to the budget planning framework.
14. **Equality and Diversity Implications** – An equality impact framework has been developed to assess budget proposals.

15. **Crime and Disorder Implications** – No direct crime and disorder implications. Direct implications arising from the impacts of this strategy will form part of the Council's approach to the budget planning framework and consultation process.
16. **Health Implications** – No direct health implications. Direct implications arising from the impacts of this strategy will form part of the Council's approach to the budget planning framework and consultation process.
17. **Sustainability Implications** – The MTFS provides a framework with the express objective of achieving a sustainable financial position over the medium term.
18. **Human Rights Implications** – No direct human rights implications.
19. **Area and Ward Implications** – All areas of the Borough are covered by the principles set out in this strategy